

## MEMORANDUM

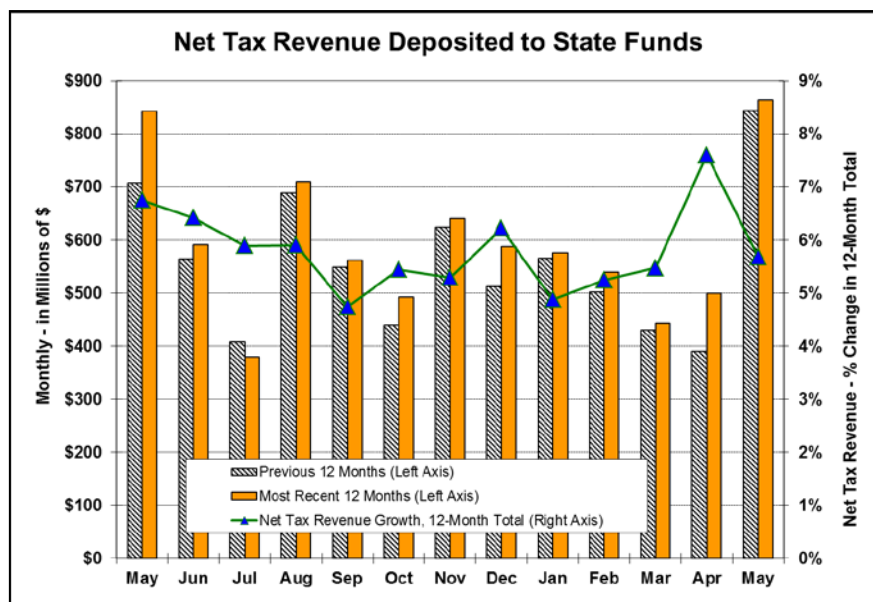
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: June 22, 2012

### Twelve-month Total Net Tax Receipts Through May 31, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending May 2012 with comparisons to the previous twelve months. May 2011 to May 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

While net tax revenue increased just 2.5% in May, the increase comes after a substantial April increase. Taken together, the months of April and May increased a very strong 10.6%. Although income tax withholding deposits have been improving, growth remains low at an annual rate of 3.3% over the past three months. Taxable vehicle fuel sales growth is negative. Both of these items indicate an economy that is expanding slowly. At \$6.884 billion, annual revenue over the most recent 12 months has increased \$370.2 million (5.7%).

## Month of May Comparison

May net tax receipts totaled \$864.3 million, an increase of \$21.1 million (2.5%) compared to May 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$11.9 million, - 3.0%) – Gross income tax deposits decreased \$13.6 million in May while individual income tax refunds issued decreased \$1.7 million. The net decrease of \$11.9 million for the month follows a significant increase in April, indicating that income tax processing occurred faster this spring than the spring of 2011. The combination of April and May was solidly positive, increasing \$58.3 million (10.6%).
- Sales/Use Tax (positive \$29.5 million, 10.2%)
  - Road Use Tax Fund use tax (fee for new registration) increased \$2.6 million in May. Monthly comparisons have shown increases in 13 of the past 15 months, with eight of the months posting a percentage increase of 9.3% or higher.
  - Gross General Fund sales/use tax receipts increased \$23.6 million (7.9%), the second large monthly increase in a row. Regular sales tax refunds decreased \$1.4 million and school infrastructure transfers out decreased \$1.9 million.
- Corporate Income Tax (positive \$5.7 million, 11.6%) – Deposits of corporate income tax receipts increased modestly in May. The large increase in net receipts was the result of a \$4.9 million decrease in refunds issued this May.
- Fuel Tax (negative \$0.1 million, - 0.3%) – Gross fuel tax deposits increased \$0.4 million for the month while tax refunds increased \$0.5 million.
- Cigarette and Tobacco Taxes (negative \$0.3 million, - 1.6%)
- Gambling Tax (positive \$7.0 million, 29.5%) – Weekly gambling tax deposits are usually made each Thursday, and May 2012 had five Thursdays. The five Thursday month last year was June, so June receipts should show a decrease.
- Insurance Premium Tax (negative \$4.2 million, - 26.1%) – The first calendar year insurance premium tax payment is due June 1. The decrease is likely the result of differences in the pace of tax deposits and the large May decrease should reverse in June.

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending May 2012, net revenue from all taxes deposited to State funds totaled \$6.884 billion, an increase of \$370.2 million (5.7%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$134.3 million, 4.7%) – Individual income tax continues to post good year-over-year annual growth numbers and the income tax withholding component has shown some improvement over the past three months. However, at 3.3% growth for the March through May period, withholding growth continues to lag the other major tax revenue sources.
- Sales/Use Tax (positive \$94.2 million, 4.2%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).

- Corporate Income Tax (positive \$123.8 million, 51.5%) – At \$364.3 million, annual corporate tax revenue, net of refunds issued, has for the first time exceeded the prerecession peak (September 2008 = \$359.2 million).
- Fuel Tax (negative \$9.5 million, - 2.1%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 1.0% while taxable diesel sales decreased 0.3%. Taxable diesel sales over the most recent 12-month period are 4.4% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) are only 0.5% above the prerecession (August 2007) peak for all taxed gallons sold.
- Gambling Tax (positive \$22.4 million, 8.0%) – According to Racing and Gaming Commission statistics, six of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending May 2012. The combined AGR growth for the 18 facilities was positive 6.1% over the previous 12-month period, with the Lyon County casino contributing 68.4% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.459 billion.
- Insurance Premium Tax (negative \$7.5 million, - 7.5%)
- Cigarette and Tobacco Tax (negative \$1.2 million, - 0.5%)

### **Tax Spotlight – Franchise (Bank) Tax and Credit Union Tax**

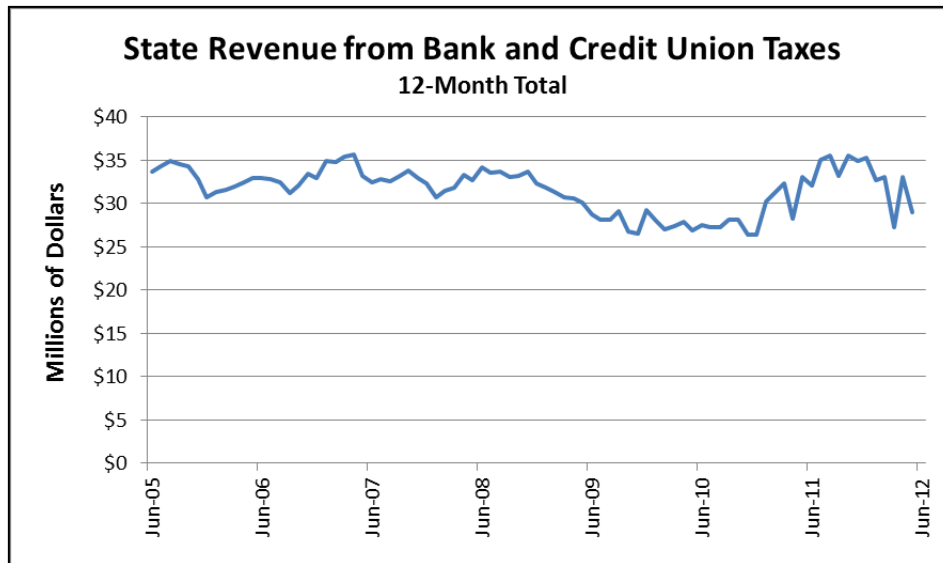
The taxation of banks and financial institutions in Iowa dates back to at least 1851. Prior to HF 1294 (Taxation of Financial Institutions Act of 1970), the bank tax was essentially a property tax, collected and retained at the local level.

The current franchise tax ([Iowa Code Chapter 422, Division V](#)) is imposed on the net income of state banks, national banking associations, trust companies, federal and state chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board and production credit associations at a rate of 5.0%. An alternative minimum tax may be applicable to financial institutions at an effective rate of 3.0%. Credit unions are subject to a different tax discussed below.

The Iowa franchise tax enacted in 1970 provided for rates ranging from 5.0% to 8.0% of net income. The franchise tax rate was reduced to a flat 5.0% in 1980. Prior to 1995, financial institutions could transfer income-producing assets to nonbank subsidiaries reducing the franchise tax owed. Legislation was enacted beginning with tax year 1995 that prohibits the deduction of those types of transfers.

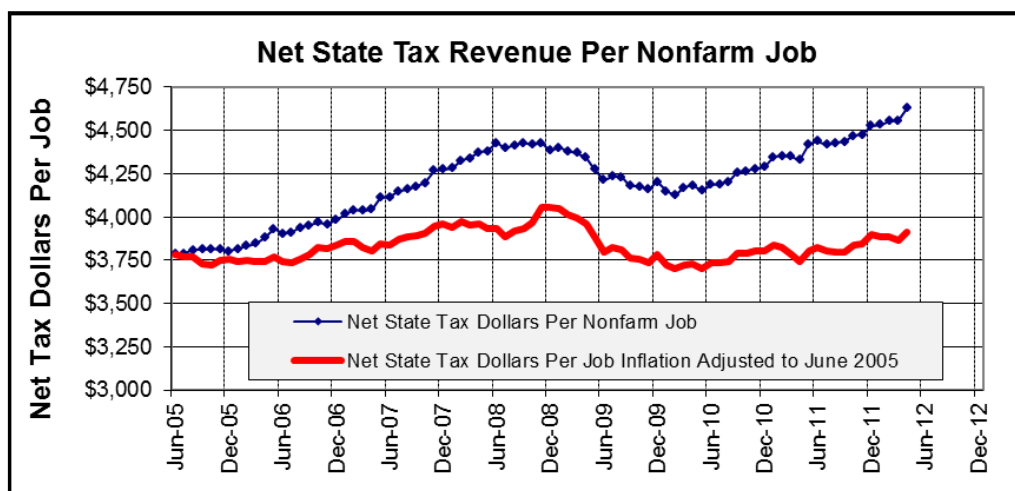
Tax returns for franchise tax are required to be filed by the last day of the fourth month after the end of the tax year. Estimate payments from most financial institutions are due on a quarterly basis. Revenue received from the franchise tax is deposited in the State General Fund.

Credit unions are taxed at a rate of five mills (0.5%) of "legal and special reserves" (see [Iowa Code Section 533.329](#)). The tax is imposed by the County Board of Supervisors and the revenue from the tax is divided between the county, city, and State, with the State share equal to 50.0% of revenue collected. The State revenue is deposited to the General Fund.



## Tax Revenue and Employment

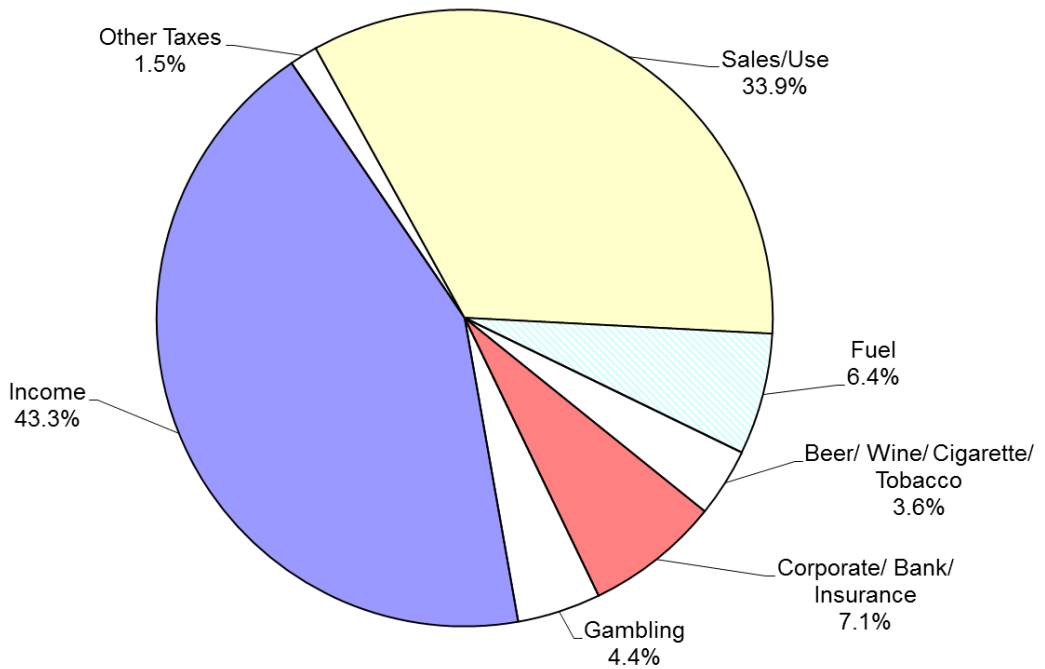
The average reading for Iowa nonfarm employment over the 12 months ending April 2012 is 1,482,800 and net State tax receipts over the same 12 months totaled \$6.862 billion, or \$4,628 per nonfarm job. This is \$843 (22.3%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 18.3%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 0.6% per year since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



## Net State Tax Revenue - Twelve Months Ending May 2012

**Net Revenue = \$6.884 Billion**

Percentages may not add to 100% due to rounding

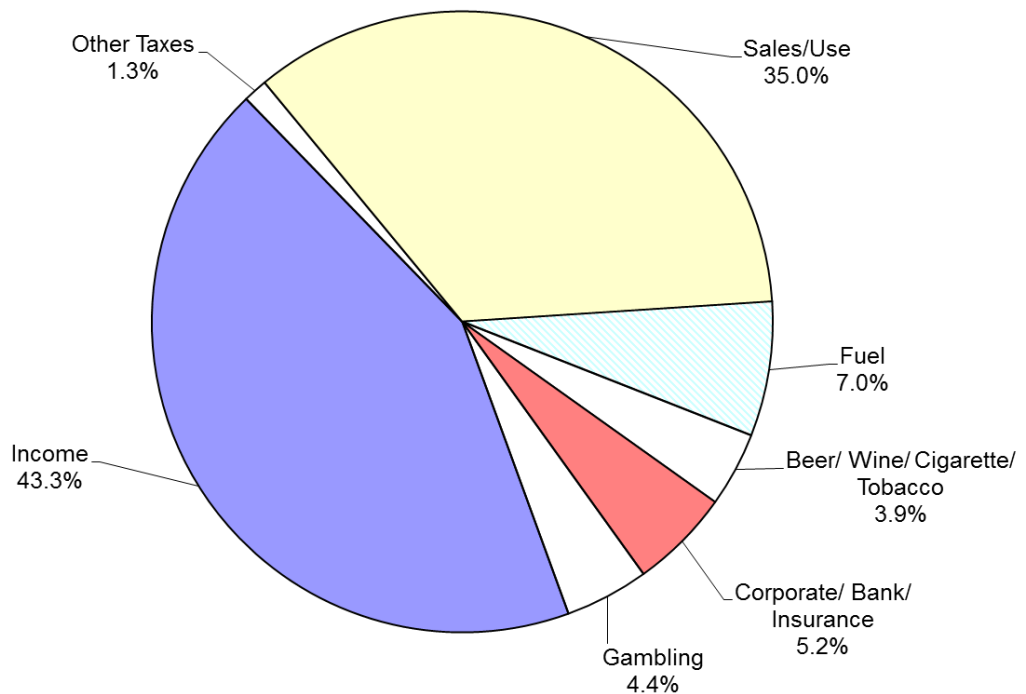


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## Net State Tax Revenue - Twelve Months Ending May 2011

**Net Revenue = \$6.513 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of May 2011</b>	<b>Month of May 2012</b>	<b>May \$ Change</b>	<b>May % Change</b>
Banking	\$ 33.0	\$ 29.0	\$ - 4.0	-12.1%	\$ 6.9	\$ 2.9	\$ - 4.0	-58.0%
Beer & Wine	21.3	21.7	0.4	1.9%	1.7	1.7	0.0	0.0%
Cigarette & Tobacco	226.9	225.7	- 1.2	-0.5%	18.4	18.1	- 0.3	-1.6%
Corporate Income	240.5	364.3	123.8	51.5%	49.3	55.0	5.7	11.6%
Fuel	448.0	438.5	- 9.5	-2.1%	36.6	36.5	- 0.1	-0.3%
Gambling	279.0	301.4	22.4	8.0%	23.7	30.7	7.0	29.5%
Individual Income	2,844.6	2,978.9	134.3	4.7%	394.3	382.4	- 11.9	-3.0%
Inheritance	65.0	75.1	10.1	15.5%	7.1	7.2	0.1	1.4%
Insurance	100.1	92.6	- 7.5	-7.5%	16.1	11.9	- 4.2	-26.1%
Other Taxes	4.5	10.3	5.8	128.9%	0.0	- 1.0	- 1.0	--
Real Estate Transfer	14.1	15.5	1.4	9.9%	1.1	1.4	0.3	27.3%
Sales/Use	2,236.3	2,330.5	94.2	4.2%	288.0	317.5	29.5	10.2%
<b>Total Net Taxes</b>	<b>\$ 6,513.3</b>	<b>\$ 6,883.5</b>	<b>\$ 370.2</b>	<b>5.7%</b>	<b>\$ 843.2</b>	<b>\$ 864.3</b>	<b>\$ 21.1</b>	<b>2.5%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,752.6	\$ 8,192.0	\$ 439.4	5.7%	\$ 939.2	\$ 952.2	\$ 13.0	1.4%
Tax Refunds	\$ - 1,239.3	\$ - 1,308.5	\$ - 69.2	5.6%	\$ - 96.1	\$ - 88.0	\$ 8.1	-8.4%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,553.0	\$ 5,776.0	\$ 223.0	4.0%	\$ 756.7	\$ 768.3	\$ 11.6	1.5%
Road Use Tax Fund	\$ 730.3	\$ 743.2	\$ 12.9	1.8%	\$ 62.3	\$ 64.7	\$ 2.4	3.9%
Non-GF Gambling	\$ 211.1	\$ 232.6	\$ 21.5	10.2%	\$ 23.5	\$ 30.4	\$ 6.9	29.4%
Other State Funds	\$ 18.9	\$ 131.8	\$ 112.9	597.4%	\$ 0.8	\$ 1.0	\$ 0.2	25.0%
<b>Local Option Taxes *</b>	<b>\$ 804.8</b>	<b>\$ 854.0</b>	<b>\$ 49.2</b>	<b>6.1%</b>	<b>\$ 73.1</b>	<b>\$ 67.6</b>	<b>\$ - 5.5</b>	<b>-7.5%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.